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**Town of Cotton Valley
Cotton Valley, Louisiana
General Purpose Financial Statements
As of and for the Year Ended December 31, 2003**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 5-18-05

Town of Cotton Valley
Cotton Valley, Louisiana

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COOK & MOREHART

Certified Public Accountants

1215 HAWN AVENUE • SHREVEPORT, LOUISIANA 71107 • P.O. BOX 78240 • SHREVEPORT, LOUISIANA 71137-8240

TRAVIS H. MOREHART, CPA
A. EDWARD BALL, CPA
VICKIE D. NOBLE, CPA

TELEPHONE (318) 222-5415

FAX (318) 222-5441

RAYEBURN G. COOK (RET.)

C. BRYAN COYLE, CPA

MEMBER
AMERICAN INSTITUTE
CERTIFIED PUBLIC ACCOUNTANTS

SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

The Honorable Keith Chanler, Mayor
and Members of the Town Council
Town of Cotton Valley
Cotton Valley, Louisiana

We have audited the accompanying general purpose financial statements of the Town of Cotton Valley, Louisiana, as of December 31, 2003 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town of Cotton Valley's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

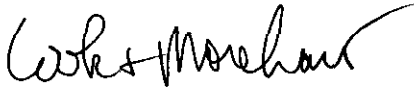
In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Cotton Valley, as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2005, on our consideration of the Town of Cotton Valley's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general

purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as whole. The accompanying financial information listed as supporting schedule in the table of contents and shown on page 24 is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Town of Cotton Valley. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Cook & Morehart", written in black ink.

Cook & Morehart
Certified Public Accountants
March 31, 2005

Town of Cotton Valley
Cotton Valley, Louisiana
Combined Balance Sheet - All Fund Types and Account Groups
December 31, 2003

	Governmental Fund Types			Proprietary Fund Type		Account Groups			Total (Memorandum Only)
	General	Special Revenue	Debt Service	Enterprise		General Fixed Assets	General Long-Term Debt		
Assets and other debits									
Cash	\$ 8,377	\$ 4,094	\$ 98	\$ 1,945		\$	\$	\$	14,514
Account receivable	12,075	4,604	2,591	15,426					34,696
Due from other funds	983	5,510	11,394						17,887
Restricted assets - cash				9,104					9,104
Land				16,000					16,000
Buildings						126,221			126,221
Vehicles				18,074		17,605			35,679
Equipment				43,546		46,904			90,450
Plant and equipment				1,708,295					1,708,295
Construction in progress				1,294,333					1,294,333
Accumulated depreciation				(577,749)					(577,749)
Amount available in debt service funds							14,083		14,083
Amount to be provided for retirement of general long-term debt							61,102		61,102
Total assets and other debits	\$ 21,435	\$ 14,208	\$ 14,083	\$ 2,528,974		\$ 190,730	\$ 75,185	\$	2,844,615

The accompanying notes are an integral part of this statement.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Combined Balance Sheet - All Fund Types and Account Groups
December 31, 2003
(Continued)

	Governmental Fund Types			Proprietary Fund Type	Account Groups			Total (Memorandum Only)
	General	Special Revenue	Debt Service		General Fixed Assets	General Long-Term Debt		
Liabilities, Fund Equity and Other Credits								
Liabilities:								
Accounts payable	\$ 30,418	\$	\$	\$ 26,305	\$	\$	\$	\$ 56,723
Due to other funds	11,394			6,493				17,887
Accrued liabilities	26,173			2,459				28,632
Payable from restricted assets -								
Revenue bonds - current maturities				14,795				14,795
Notes payable - current maturities				14,275				14,275
Accrued interest				3,368				3,368
Customer's deposits				20,514				20,514
General obligation bonds payable						60,000		60,000
Revenue bonds payable - long term				807,362				807,362
Notes payable - long term				60,376		15,185		75,561
Total liabilities	67,985			955,947		75,185		1,099,117
Fund equity and other credits								
Contributed capital				884,392				884,392
Investment in general fixed assets					190,730			190,730
Retained earnings -								
Reserved for revenue bond retirement								9,104
Unreserved				679,531				679,531
Fund balances (deficit) -								
Reserved for debt service			14,083					14,083
Unreserved, undesignated	(46,550)	14,208						(32,342)
Total fund equity and other credits	(46,550)	14,208	14,083	1,573,027	190,730			1,745,498
Total liabilities, fund equity and other credit	\$ 21,435	\$ 14,208	\$ 14,083	\$ 2,528,974	\$ 190,730	\$ 75,185	\$	\$ 2,844,615

The accompanying notes are an integral part of this statement.

Town of Cotton Valley
Cotton Valley, Louisiana
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)
All Governmental Fund Types
For the Year Ended December 31, 2003

	General	Special Revenue	Debt Service	Total (Memorandum Only)
Revenues:				
Taxes				
Ad valorem	\$ 10,603	\$	\$ 6,161	\$ 16,764
Franchise	25,544			25,544
Sales		53,567		53,567
Licenses and permits	26,828			26,828
Intergovernmental				
Other	1,261			1,261
Fines and forfeits	80,049			80,049
Other	21,279			21,279
Interest income	133	10		143
Total revenues	<u>165,697</u>	<u>53,577</u>	<u>6,161</u>	<u>225,435</u>
Expenditures:				
Current -				
General government	139,111			139,111
Public safety - police	72,791			72,791
Highway and streets	28,794			28,794
Capital outlay	17,605			17,605
Debt service:				
Principal payments	2,420		2,000	4,420
Interest and fiscal charges	270		3,100	3,370
Total expenditures	<u>260,991</u>	<u></u>	<u>5,100</u>	<u>266,091</u>
Excess of revenues over(under) expenditures	(95,294)	53,577	1,061	(40,656)
Other financing sources (uses):				
Proceeds from note payable	17,605			17,605
Operating transfers in	47,800			47,800
Operating transfers out		(47,800)		(47,800)
Total other financing sources (uses)	<u>65,405</u>	<u>(47,800)</u>	<u></u>	<u>17,605</u>
Excess of revenues and other sources over(under) expenditures and other uses	(29,889)	5,777	1,061	(23,051)
Fund balances (deficit) at December 31, 2002	<u>(16,661)</u>	<u>8,431</u>	<u>13,022</u>	<u>4,792</u>
Fund balances (deficit) at December 31, 2003	<u>\$ (46,550)</u>	<u>\$ 14,208</u>	<u>\$ 14,083</u>	<u>\$ (18,259)</u>

The accompanying notes are an integral part of this statement.

Town of Cotton Valley
Cotton Valley, Louisiana
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget (Cash Basis) and Actual
General, Special Revenue, and Debt Service Fund Types
For the Year Ended December 31, 2003

	General Fund			Special Revenue Fund Types			Debt Service Fund Types		
	Budget	Actual	Variance- (Unfavorable)	Budget	Actual	Variance- (Unfavorable)	Budget	Actual	Variance- (Unfavorable)
Revenues:									
Taxes									
Ad valorem	\$ 19,277	\$ 11,473	\$ (7,804)	\$	\$	\$	\$ 5,100	\$ 6,666	\$ 1,566
Franchise	27,700	25,544	(2,156)						
Sales				55,000	48,963	(6,037)			
Licenses and permits	24,400	26,828	2,428						
Intergovernmental									
Other		1,261	1,261						
Fines and forfeits	78,000	80,049	2,049						
Other	18,580	21,279	2,699						
Interest income		133	133		10	10			
Total revenues	<u>167,957</u>	<u>166,567</u>	<u>(1,390)</u>	<u>55,000</u>	<u>48,973</u>	<u>(6,027)</u>	<u>5,100</u>	<u>6,666</u>	<u>1,566</u>
Expenditures:									
General government	117,554	120,559	(3,005)						
Public safety - police	47,200	72,791	(25,591)						
Highway and streets	12,000	28,794	(16,794)						
Capital outlay		17,605	(17,605)						
Principal payments on debt		2,420	(2,420)				2,000	2,000	
Interest and fiscal changes		270	(270)				3,100	3,100	
Total expenditures	<u>176,754</u>	<u>242,439</u>	<u>(65,685)</u>				<u>5,100</u>	<u>5,100</u>	
Excess of revenues over (under) expenditures	(8,797)	(75,872)	(67,075)	55,000	48,973	(6,027)		1,566	1,566
Other financing sources (uses):									
Proceeds from note payable		17,605	17,605						
Operating transfers in	55,000	47,800	(7,200)						
Operating transfers out				(55,000)	(47,800)	7,200			
Other financing sources (uses)	<u>55,000</u>	<u>65,405</u>	<u>10,405</u>	<u>(55,000)</u>	<u>(47,800)</u>	<u>7,200</u>			
Excess of revenues and other sources over (under) expenditures and other uses	46,203	(10,467)	(56,670)		1,173	1,173		1,566	1,566
Fund balances (Deficit) - December 31, 2002		21,421	21,421		8,431	8,431		9,926	9,926
Fund balances - December 31, 2003	<u>\$ 46,203</u>	<u>\$ 10,954</u>	<u>\$ (35,249)</u>	<u>\$</u>	<u>\$ 9,604</u>	<u>\$ 9,604</u>	<u>\$</u>	<u>\$ 11,492</u>	<u>\$ 11,492</u>

The accompanying notes are an integral part of this statement.

Town of Cotton Valley
Cotton Valley, Louisiana
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings (Deficit)
All Proprietary Fund Types
For the Year Ended December 31, 2003

	Enterprise
Operating revenues:	
Charges for service -	
Water and sewer sales	\$ 192,361
Other	507
	<hr/>
Total operating revenues	192,868
	<hr/>
Operating expenses:	
Salaries	47,068
Payroll taxes	3,601
Insurance	5,888
Maintenance and repairs	14,270
Miscellaneous expenses	17,199
Office expense	11,206
Materials and supplies	29,694
Sales tax	5,045
Truck expense	10,430
Utilities	20,896
Depreciation	49,123
Total operating expenses	<hr/> 214,420
	<hr/>
Operating income (loss)	(21,552)
	<hr/>
Non-operating revenues (expenses):	
Federal grant for capital assets	711,300
Interest income	63
Interest expense	(12,967)
Total non-operating revenues (expenses)	<hr/> 698,396
	<hr/>
Net income (loss)	676,844
	<hr/>
Depreciation transferred to contributions	25,732
Increase in retained earnings	<hr/> 702,576
	<hr/>
Retained earnings (deficit) at December 31, 2002	(13,941)
	<hr/>
Retained earnings (deficit) at December 31, 2003	\$ 688,635
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

Town of Cotton Valley
Cotton Valley, Louisiana
Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended December 31, 2003

	<u>Enterprise</u>
Cash flows from operating activities:	
Operating net income (loss)	\$ (21,552)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	49,123
(Increase) decrease in accounts receivable	(1,715)
Increase (decrease) in accounts payable	20,937
Increase (decrease) in accrued liabilities	2,459
Increase (decrease) in due to other funds	(7,765)
Increase (decrease) in customer deposits	2,200
Net cash provided by operating activities	<u>43,687</u>
Cash flows from capital and related financing activities:	
Federal grant proceeds for capital assets	711,300
Proceeds from revenue bonds	586,000
Payments for capital assets	(1,306,410)
Principal paid on revenue bonds and notes payable	(26,782)
Interest paid on revenue bonds and notes payable	(12,967)
Net cash used in capital and related financing activities	<u>(48,859)</u>
Cash flows from investing activities:	
Interest income	<u>63</u>
Net decrease in cash and cash equivalents	(5,109)
Cash and cash equivalents at December 31, 2002	<u>16,158</u>
Cash and cash equivalents at December 31, 2003	<u><u>\$ 11,049</u></u>

The accompanying notes are an integral part of this statement.

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003

(1) Summary of Significant Accounting Policies

The Town of Cotton Valley is incorporated under the provisions of the Lawrason Act. The Town operates under a Mayor–Council form of government.

A. *Basis of Presentation*

The accompanying financial statements of the Town of Cotton Valley have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. *Reporting Entity*

As the municipal governing authority, for reporting purposes, the Town of Cotton Valley is considered a separate financial reporting entity. The financial reporting entity consists of (a) the primary government (Town of Cotton Valley), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the Town of Cotton Valley for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. *Appointing a voting majority of an organization's governing body, and*
 - a. *The ability of the Town to impose its will on that organization and/or*
 - b. *The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Town.*
2. *Organizations for which the Town does not appoint a voting majority but are fiscally dependent on the Town.*
3. *Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.*

As required by generally accepted accounting principles, these financial statements present the Town of Cotton Valley. There are no component units to be included as part of the reporting entity.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

C. Fund Accounting

The Town uses funds and account groups to report on its financial position and the results of its operations. *Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. On the other hand, an account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds of the Town are classified into two categories: governmental and proprietary. In turn, each category is divided into separate fund types. The fund classifications and a description of each existing fund type follow:*

Governmental Funds

Governmental funds are used to account for all or most of the Town's general activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term debt. Governmental funds include:

General Fund – the general operating fund of the Town and accounts for all financial resources except those required to be accounted for in other funds.

Special Revenue Funds – account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Fund – account for transactions relating to resources retained and used for the payment of principal and interest on those long-term obligations recorded in the general long-term debt account group.

Proprietary Fund

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds differ from governmental funds in that their focus is on income measurement, which, together with the maintenance of equity, is an important financial indicator. Proprietary funds include:

Enterprise Fund – accounts for operations (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

The account groups of the Town are described as follows:

General Fixed Assets Account Group

The General Fixed Assets Account Group is used to account for fixed assets used in governmental fund type operations for control purposes. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date of donation. *No depreciation is recorded on general fixed assets.*

General Long-Term Debt Account Group

The General Long-Term Debt Account Group is used to account for long-term liabilities to be financed from government funds.

D. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. *With this measurement focus, only current assets and current liabilities generally are included on the balance sheet.* Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, franchise taxes, licenses, interest revenue and charges for services. Sales taxes collected and held by the collecting government at year-end on behalf of the Town also are recognized as revenue. Fines and permit revenues are not susceptible to accrual because generally they are not measurable until received as cash.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

All proprietary funds are accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. The proprietary funds use the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized at the time liabilities are incurred.

E. Budget and Budgetary Accounting

The Town follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The Mayor and Town Council prepare a proposed budget.
2. After completion of all action necessary to finalize and implement the budget, the budget is adopted through passage of an ordinance.
3. Budgetary amendments involving the transfer of funds from one department, program or function to another, or involving increases in expenditures resulting from revenues exceeding amounts estimated, require the approval of the Council.
4. All budgetary appropriations lapse at the end of each fiscal year.
5. For the year ended December 31, 2003, the Town adopted budgets on a cash basis for the general fund, special revenue fund, and debt service fund. Budget comparison statements included in the accompanying financial statements include the original adopted budgets. There were no amendments to the budgets. The following schedule reconciles excess (deficiency) of revenues and other sources over expenditures and other uses on the statement of revenues, expenditures and changes in fund balances (budget basis) with the amounts shown on the statement of revenues, expenditures and changes in fund balances (GAAP basis):

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses (budget basis)	\$ (10,467)	\$ 1,173	\$ 1,566
Adjustments:			
Revenue accruals – net	(871)	4,604	(505)
Expenditures accruals – net	<u>(18,551)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses (GAAP basis)	<u>\$ (29,889)</u>	<u>\$ 5,777</u>	<u>\$ 1,061</u>

F. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. The commitments (purchase order, contracts, and other commitments for the expenditure of funds) are not treated as expenditures until a liability for payment is incurred, but are merely used to facilitate effective budget control and cash planning and management. Encumbrance accounting where a portion of the applicable appropriation is reserved for open purchase orders is not employed by the Town of Cotton Valley.

G. Cash and Cash Equivalents

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the Town may deposit funds in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

Under state law, the Town of Cotton Valley, Louisiana may invest in United States bonds, treasury notes, or certificates. These are classified as investments if their original maturities exceed 90 days; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

H. **Short-Term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the balance sheet. Short-term interfund loans are classified as interfund receivables/payables.

I. **Fixed Assets**

General Fixed Assets Account Group –

Fixed assets of governmental funds are recorded as expenditures at the time purchased or constructed and the related assets are capitalized (reported) in the General Fixed Asset Account Group. Public domain ("infrastructure") general fixed assets including roads and sidewalks are not capitalized. No depreciation has been provided on general fixed assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair value on the date donated. Repairs and maintenance are recorded as expenditures; renewals and betterments are capitalized.

Water and Sewer System –

Additions to the utility plant in service are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation has been calculated on each class of depreciable property using the straight-line method and charged as an expense against operations. Estimated useful lives are as follows:

Water and Sewer System	40 years
Vehicles	5 years
Other equipment	5-10 years

J. **Inventories**

Purchases of various operating supplies for the Water System and Sewer System are regarded as expenses at the time purchased, and any inventories of such supplies remaining at year end was immaterial and therefore are not recorded as assets at the close of the fiscal year.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

K. Compensated Absences

The Town allows up to two weeks vacation depending upon years of service. No carryover or accrued vacation leave is allowed. Unused vacation time will be applied upon termination. In addition, unused accumulated sick pay will not be paid upon separation of service.

As of December 31, 2003, employee leave benefits were determined to be immaterial and are therefore not recorded as a liability.

L. Long-Term Obligations

Long-term obligations expected to be financed from governmental funds are reported in the general long-term debt account group. Expenditures for principal and interest payments for long-term obligations are recognized in the governmental funds when due. Long-term obligations expected to be financed from proprietary fund operations are accounted for in those funds.

M. Fund Equity

Contributed Capital

Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers, or other funds when such resources are restricted for the acquisition or construction of capital assets. Contributed capital is amortized based on the depreciation recognized on that portion of the assets acquired or constructed from such resources. This depreciation is closed to the contributed capital account and is reflected as an adjustment to net income.

Reserves

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

N. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers of the primary government are reported as operating transfers.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

O. Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in those columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

P. Bad Debts

The Town uses the direct charge-off method of accounting for uncollectible ad valorem taxes and water/sewer system receivables. Although this method is not in accordance with generally accepted accounting principles, the overall effect on the financial statements is immaterial.

Q. Capitalized Interest

The Town capitalizes net interest costs and interest earned as part of the cost of constructing various water and sewer projects when material.

R. Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the Utility Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

S. Postretirement Benefits

The Town provides no postretirement benefits to its employees.

T. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

(2) Fund Deficits

The following individual funds have deficits in unreserved fund balances at December 31, 2003:

<u>Fund</u>	<u>Deficit Amount</u>
General Fund	\$ (46,550)

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

(3) **Ad Valorem Taxes**

Ad valorem taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied by the Town in September or October and are actually billed to the taxpayers in November. Billed taxes become delinquent on January 1 of the following year. Revenues from ad valorem taxes are budgeted in the year billed.

The Town bills and collects its own property taxes, using the assessed values determined by the tax assessor of Webster Parish.

The distribution of the Town's levy (tax rate per \$1,000 assessed value) were as follows:

	Tax Roll 2003
General Fund	6.80
Debt Service	3.95
	<u>10.75</u>

(4) **Cash and Cash Equivalents**

At December 31, 2003 the Town had cash and cash equivalents (book balances) totaling \$23,618, of which \$9,104 is shown as a restricted asset.

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2003, the Town had \$262,336 in deposits (collected bank balances). These deposits are secured from risk by federal deposit insurance of \$108,908 and \$153,428 of pledged securities held by the custodial bank in the name of the fiscal agent bank.

Even though the pledged securities are considered uncollateralized under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified that the fiscal agent has failed to pay deposited funds upon demand.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

(5) Dedication of Proceeds – Sales and Use Tax

The proceeds of the 1% sales and use tax passed by the voters of the Town of Cotton Valley may be used only for the operation of the police department and for the maintenance of streets and operations of street lights. The Webster Parish School Board collects the tax for the Town, remitting to the town on a weekly basis, for a fee of 1% of collections.

(6) Interfund Transactions

Interfund receivables and payables consist of the following at December 31, 2003:

	Due from <u>Other Funds</u>	Due to <u>Other Funds</u>
General Fund	\$ 983	\$ 11,394
Debt Service	11,394	–
Special Revenue Fund	5,510	–
Enterprise Fund	<u>–</u>	<u>6,493</u>
	<u>\$ 17,887</u>	<u>\$ 17,887</u>

(7) Changes in Fixed Assets

A summary of changes in general fixed assets follows:

	Balance <u>January 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>December 31, 2003</u>
Furniture and fixtures	\$ 17,710	\$ –	\$ –	\$ 17,710
Buildings	126,221	–	–	126,221
Vehicles	625	17,605	625	17,605
Office Equipment	<u>29,194</u>	<u>–</u>	<u>–</u>	<u>29,194</u>
Total general fixed assets	<u>\$ 173,750</u>	<u>\$ 17,605</u>	<u>\$ 625</u>	<u>\$ 190,730</u>

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

A summary of proprietary fund type property, plant and equipment at December 31, 2003 follows:

Land	\$ 16,000
Office equipment	2,700
Other equipment	40,846
Vehicles	18,074
Water and sewer system	1,061,532
Water and sewer system improvements	646,763
Construction in progress	<u>1,294,333</u>
 Total	 3,080,248
Less accumulated depreciation	<u>(577,749)</u>
 Net	 <u>\$ 2,502,499</u>

Depreciation expense for the year ended December 31, 2003 was \$49,123.

(8) Changes in Long-Term Debt

The following is a summary of bond transactions of the Town of Cotton Valley for the year ended December 31, 2003:

	General Obligation <u>Bonds</u>	Revenue <u>Bonds</u>	Notes <u>Payable</u>	<u>Total</u>
Obligations Payable January 1, 2003	\$ 62,000	\$ 249,942	\$ 87,648	\$ 399,590
Debt proceeds	-	586,000	17,605	603,605
Less principal payments, year ended December 31, 2003	<u>(2,000)</u>	<u>(13,785)</u>	<u>(15,417)</u>	<u>(31,202)</u>
Obligations Payable, December 31, 2003	<u>\$ 60,000</u>	<u>\$ 822,157</u>	<u>\$ 89,836</u>	<u>\$ 971,993</u>

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

Bonds payable at December 31, 2003 are comprised of the following individual issues:

General obligation bonds –

\$90,000 Public Improvement Bonds dated 7/29/80; due in annual installments of \$1,000 – \$5,000 through 7/29/20; interest at 5%. The debt redemption is paid from the Debt Service Fund. At December 31, 2003, \$14,083 is available to service the General Obligation Bonds.

\$ 60,000

Notes Payable – Water and Sewer

Notes payable to a Simmons Waterworks, Inc., with zero interest, payable in 200 monthly installments of \$1,000, due December, 2009.

\$ 71,490

Note payable to GMAC; 11.75% interest rate; payable in 48 monthly payments of \$210; secured by vehicle

3,161

Notes payable – water and sewer

\$ 74,651

Note payable to GMAC; 8.49% interest rate; payable in 48 monthly Payments of \$434; secured by vehicle

15,185

Total notes payable

\$ 89,836

Revenue bonds –

\$586,000 Water and Sewer Revenue Bonds dated August 12, 2003; due in 480 monthly installments beginning October, 2004 of \$2,567 which includes principal and interest; interest rate at 4.25%; final payment in 2044.

\$ 586,000

\$180,000 Water and Sewer Revenue Bonds dated August 1, 1974; due annual installments of \$1,000 through \$11,000, which includes principal and interest; interest rate at 5%

\$ 90,000

\$190,000 Sewer Revenue Bonds (Series A #92-02) and \$35,000 Sewer Revenue Bonds (Series B #92-05) dated 7/29/80; due in annual payments of \$3,000 to \$11,000, with the first payment (July 1982) being for interest only, and, thereafter the payments shall be equal in amount and consist of fully amortized installments of principal and interest, interest at 5%

133,000

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

\$8,905 Water Revenue Bonds dated June 15, 1993; due in annual installments of \$609, which includes principal and interest; interest rate at 5% 6,833

\$10,226 Water Revenue Bonds dated June 15, 1993; due in annual installments of \$821, which includes principal and interest; interest rate at 5% 6,324

Total revenue bonds payable \$ 822,157

The annual requirements to amortize all debt outstanding as of December 31, 2003, including interest payments of \$30,600 for the General Obligations Bonds; \$2,567 for notes payable; \$752,155 for the Revenue Bonds, are as follows:

Year Ending December 31	General Obligation	Notes Payable	Revenue Bonds	Total
2004	\$ 5,000	\$ 19,725	\$ 60,301	\$ 85,026
2005	4,900	18,092	56,680	79,672
2006	5,800	17,206	54,980	77,986
2007	5,650	13,890	55,330	74,870
2008	5,500	12,000	55,630	73,130
2009 – 2013	26,250	11,490	275,801	313,541
2014 – 2018	26,750	–	216,802	243,552
2019 – 2023	10,750	–	177,651	188,401
2024 – 2028	–	–	154,001	154,001
2029 – 2033	–	–	154,001	154,001
2034 – 2038	–	–	154,001	154,001
2039 – 2043	–	–	154,001	154,001
2044 – 2048	–	–	5,133	5,133
	<u>\$ 90,600</u>	<u>\$ 92,403</u>	<u>\$ 1,574,312</u>	<u>\$ 1,757,315</u>

(9) Restricted Assets – Proprietary Fund Type

Restricted assets were applicable to the following at December 31, 2003:

	Enterprise Fund
Customer deposits	\$ 518
Bond and interest sinking fund	152
Bond reserve fund	5,851
Contingency fund	118
Construction grant	<u>2,465</u>
	<u>\$ 9,104</u>

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

(10) *Customers' Deposits*

Deposits held for customers that are currently active on the water system total \$20,514 at December 31, 2003.

(11) *Changes in Contributed Capital*

The following is a summary of changes in contributed capital:

	<u>Enterprise Fund</u>
Balance January 1, 2003	\$ 910,125
Depreciation transferred from retained earnings	<u>(25,733)</u>
Balance December 31, 2003	<u>\$ 884,392</u>

(12) *Other Postemployment Benefits*

The Town provides no other postemployment benefits to its employees.

(13) *Risk Management*

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town.

(14) *Accounts Receivable*

The following is a summary of accounts receivable at December 31, 2003:

<u>Class of Receivable</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Proprietary Fund</u>
Sales taxes	\$ -	\$ 4,604	\$ 2,591	\$ -
Ad valorem taxes	4,459	-	-	-
Other	7,616	-	-	-
Accounts	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,426</u>
	<u>\$ 12,075</u>	<u>\$ 4,604</u>	<u>\$ 2,591</u>	<u>\$ 15,426</u>

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Notes to Financial Statements
December 31, 2003
(Continued)

(15) Subsequent Event

The Town adopted an ordinance at its April, 2003 meeting to authorize the sale and issuance of water revenue bonds in the amount of \$586,000. These bonds and a grant in the amount of \$1,697,000 from the United States of America, Rural Development, will be used to acquire and construct improvements and replacements to its waterworks system. As of December 31, 2003 the Town has expended approximately \$1,300,600 on the construction project of which there are contracts for construction and architectural services of approximately \$1,720,000.

(16) GASBS No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (Statement). Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Town’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Town’s activities, including reporting infrastructure assets (roads, bridges, etc.), as applicable.
- A change in the fund financial statements to focus on the *major* funds.

The general provisions of GASBS No. 34 must be implemented in the year ending December 31, 2004.

Town of Cotton Valley
Cotton Valley, Louisiana
Schedule of Compensation Paid to Board Members
For the Year Ended December 31, 2003

Mayor - Keith Chanler	\$ 6,100
Alderman:	
Chris Ridge	1,200
J.T. Lash	1,200
Charlene Lewis	1,200
Lynn Guillot	1,200
Robert Coleman	1,200
	<hr/>
	\$ 12,100
	<hr/>

Town of Cotton Valley
Cotton Valley, Louisiana
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2003

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture –			
USDA Rural Development –			
Direct Program – Water and Waste			
Disposal Systems for Rural Communities	10.760	Loans	\$ 882,157
	10.760	Grant	\$ 711,300

Note 1: The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

Note 2: The Town had the following loan balances outstanding at December 31, 2003. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

On July 29, 1980, General Obligation Bonds issued by the Town totaling \$90,000, with a remaining balance of \$60,000 at December 31, 2003, were purchased by Rural Development.

On August 1, 1974, Water and Sewer Revenue Bonds issued by the Town totaling \$180,000, with a remaining balance of \$90,000 at December 31, 2003, were purchased by Rural Development.

On July 29, 1980, additional sewer revenue bonds issued by the Town totaling \$225,000 (Series A, #92-02, \$190,000; Series B, #92-05, \$35,000), with a remaining balance of \$133,000 at December 31, 2003, were purchased by Rural Development.

On June 15, 1993, Water Revenue Bonds totaling \$8,905 and \$10,226, with a remaining balance of \$6,833 and \$6,324 at December 31, 2003, were purchased by Rural Development.

On August 12, 2003, Water Revenue Bonds (#91-08) totaling \$586,000, with a remaining balance of \$586,000 were issued by Rural Development.

COOK & MOREHART

Certified Public Accountants

1215 HAWN AVENUE • SHREVEPORT, LOUISIANA 71107 • P.O. BOX 78240 • SHREVEPORT, LOUISIANA 71137-8240

TRAVIS H. MOREHART, CPA
A. EDWARD BALL, CPA
VICKIE D. NOBLE, CPA

TELEPHONE (318) 222-5415

FAX (318) 222-5441

RAYEBURN G. COOK (RET.)

C. BRYAN COYLE, CPA

MEMBER
AMERICAN INSTITUTE
CERTIFIED PUBLIC ACCOUNTANTS

SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Town of Cotton Valley
Cotton Valley, Louisiana

We have audited the general purpose financial statements of the Town of Cotton Valley as of and for the year ended December 31, 2003, and have issued our report thereon dated March 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

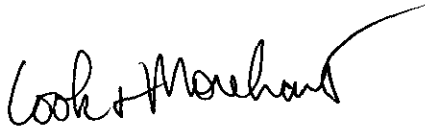
As part of obtaining reasonable assurance about whether the Town of Cotton Valley's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2003-B1, 2003-B3, 2003-B6 and 2003-B7.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Cotton Valley's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted several matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Town of Cotton Valley's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-B2, 2003-B4 and 2003-B5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Cook & Morehart", with a long, sweeping flourish extending from the end of the signature.

Cook & Morehart
Certified Public Accountants
March 31, 2005

COOK & MOREHART

Certified Public Accountants

1215 HAWN AVENUE • SHREVEPORT, LOUISIANA 71107 • P.O. BOX 78240 • SHREVEPORT, LOUISIANA 71137-8240

TRAVIS H. MOREHART, CPA
A. EDWARD BALL, CPA
VICKIE D. NOBLE, CPA

TELEPHONE (318) 222-5415

FAX (318) 222-5441

RAYEBURN G. COOK (RET.)

C. BRYAN COYLE, CPA

MEMBER
AMERICAN INSTITUTE
CERTIFIED PUBLIC ACCOUNTANTS

SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Town of Cotton Valley
Cotton Valley, Louisiana

Compliance

We have audited the compliance of the Town of Cotton Valley with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. The Town of Cotton Valley's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Cotton Valley's management. Our responsibility is to express an opinion on the Town of Cotton Valley's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Cotton Valley's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Cotton Valley's compliance with those requirements.

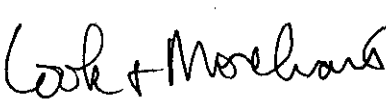
In our opinion, the Town of Cotton Valley complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2003-C1.

Internal Control Over Compliance

The management of the Town of Cotton Valley is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Cotton Valley's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Cook & Morehart
Certified Public Accountants
March 31, 2005

Town of Cotton Valley
Cotton Valley, Louisiana
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2003

2002-B1: Use of Debt Service Ad Valorem Taxes

During our audit, we noted that the Town is not separating the voter approved debt service millage ad valorem taxes into a separate fund and is not limiting the use of those funds for retirement of general obligation bonds.

At December 31, 2002, the debt service fund was owed \$9,908 from other funds that were transferred-loaned to the other funds of the Town.

The Town, upon collecting the ad valorem taxes and depositing them into a general fund checking account, is not transferring the debt service millage portion to a separate fund.

Response:

- 1) The Town now deposits the debt service millage portion of the ad valorem taxes into a separate debt service fund quarterly. The Town will now perform this task on a monthly basis.
- 2) The Town will, as soon as possible in 2004, pay back the amount owed to the debt service fund.

Current Status: See current year finding.

2002-B2: Budget Adoption – Local Government Budget Act

The Town did not adopt its budget for the year ended December 31, 2002 until January 8, 2003. The Local Government Budget Act requires the budget be adopted no later than fifteen days prior to the beginning of each fiscal year.

Response: The 2003 Budget was adopted in accordance with the Local Government Budget Act on October 10, 2002.

Current Status: No finding in current year audit.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2003
(Continued)

2002-B3: Budgetary Control

During the year ended December 31, 2002, the Town did not amend the 2002 budget which caused the revenue and other sources and actual expenditures and other uses to exceed the budgeted amounts by more than 5% for the general fund and the special revenue fund.

Response: The Town will begin monitoring it's budgets and implement amendments to those budgets to comply with state law upon monthly compilation reports from our CPA firm.

Current Status: See current year finding.

2003-B4: Control of Utility Accounts and Customer Deposits

During our audit for the year ended December 31, 2002, we note the following concerning control of utility accounts receivable and utility customer deposits:

The Town does not reconcile an aged accounts receivable trial balance and the customer deposit detail listing to the general ledger on a monthly basis.

The Town does not maintain bank account balances that correspond to the utility deposit amounts.

Response: For 2004, the Town will start to reconcile account receivable Trial balance and customer deposit listing to each report on a monthly basis.

The Town will maintain a bank account that corresponds to the customer deposits on a monthly basis.

Customer deposit details will be reconciled upon the new software implementation compiled monthly.

Current Status: See current year finding.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2003
(Continued)

2002-B5: Control Over Traffic/Misdemeanor Tickets

The Town has recently implemented new procedures in regards to traffic/misdemeanor tickets, but, during our audit we noted that the Assistant Town Clerk was performing almost all of the procedures without much if any approval or review by the Town Clerk.

Response: Starting in 2004, the Town Clerk will review the activity of traffic tickets and reconcile the receipt book for cash payments made in deposits.

Current Status: See current year finding.

2002-B6: Late Submission of Audit Report

The Town's audit report was not submitted timely in accordance with state audit law.

Response: The Town plans are to start the 2003 audit in a manner timely enough to submit the 2003 audit report in accordance with state law.

Current Status: See current year finding.

2002-B7: Loans to Town Employees

During the audit we noted that loans were made out of the Town's general fund to certain Town employees. The amount loaned was approximately \$2,322. This violates Article 7, Section 14 of the Louisiana Constitution and the Code of Ethics Law for Public Officials and Public Employees which prohibits employees or officials accepting/receiving loans from the Town.

Response: This activity will be discontinued and the Town will seek repayment on these loans.

Current Status: See current year finding.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Summary Schedule of Prior Audit Findings
For the Year Ended December 31, 2003
(Continued)

2002-B8: Computer Backup Not Performed

During the audit we noted the Town is not performing backups on its utility program software on a routine basis.

Response: The computer used in this department has not performed favorably in back-up attempts. This problem will be eliminated in 2004 with our new computer and program.

Current Status: See current year finding.

Department of Agriculture – USDA Rural Development, CFDA #10.760

2002-C1: Funding Reserves Required by Rural Development Debt Agreements

During our audit, we noted that the Town did not fund the required reserves for the Rural Development debt.

Response: The Town will try to start making reserve payments to these funds.

Current Status: See current year finding.

Town of Cotton Valley
Cotton Valley, Louisiana
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the Town of Cotton Valley.
2. Three reportable conditions are reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. None of the reportable conditions is reported as a material weakness.
3. Five instances of noncompliance material to the financial statements of the Town of Cotton Valley were disclosed during the audit.
4. No reportable conditions are reported in the Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for the Town of Cotton Valley expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for the Town of Cotton Valley are reported in Part C of this schedule.
7. The program tested as a major program was the Farmers Home Administration Water and Waste Disposal Systems for Rural Communities CFDA #10.760.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Town of Cotton Valley did not qualify as a low-risk auditee.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003
(Continued)

B. Findings – Financial Statements Audit:

2003-B1: Use of Debt Service Ad Valorem Taxes

During our audit, we noted that the Town is not separating the voter approved debt service millage ad valorem taxes into a separate fund and is not limiting the use of those funds for retirement of general obligation bonds.

At December 31, 2003, the debt service fund was owed \$9,908 from other funds that were transferred-loaned to the other funds of the Town.

The Town, upon collecting the ad valorem taxes and depositing them into a general fund checking account, is not transferring the debt service millage portion to a separate fund.

Recommendation:

- 1) The Town should transfer – deposit the debt service millage portion of the ad valorem taxes into the separate debt service fund immediately upon collecting the taxes.
- 2) The Town should pay back the amount loaned to the other funds from the debt service fund.

Response:

- 1) The Town now deposits the debt service millage portion of the ad valorem taxes into a separate debt service fund quarterly. The Town will now perform this task on a monthly basis.
- 2) The Town will, as soon as possible in 2004, pay back the amount owed to the debt service fund.

2003-B2: Computer Backup Not Performed

During the audit we noted the Town is not performing backups on its utility program software on a routine basis.

Recommendation: We recommend the Town perform backups on a routine basis.

Response: The Town will perform back-ups on a routine basis.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003
(Continued)

2003-B3: Budgetary Control

During the year ended December 31, 2003, the Town did not amend the 2003 budget which caused the revenue and other sources and actual expenditures and other uses to exceed the budgeted amounts by more than 5% for the general fund and the special revenue fund.

Recommendation: We recommend that the Town monitor its budgets and amend those budgets in order to be in compliance with state law.

Response: The Town will begin monitoring it's budgets and implement amendments to those budgets to comply with state law upon monthly compilation reports from our CPA firm.

2003-B4: Control of Utility Accounts and Customer Deposits

During our audit for the year ended December 31, 2003, we note the following concerning control of utility accounts receivable and utility customer deposits:

The Town does not reconcile an aged accounts receivable trial balance and the customer deposit detail listing to the general ledger on a monthly basis.

The Town does not maintain bank account balances that correspond to the utility deposit amounts.

Recommendation: We recommend that the Town reconcile the aged accounts receivable trial balance and the customer deposit detail listing to the general ledger or to each report and listing on a monthly basis.

We recommend that the Town maintain a bank account that corresponds to the customer deposits on a monthly basis.

Response: For 2004, the Town will start to reconcile account receivable Trial balance and customer deposit listing to each report on a monthly basis.

The Town will maintain a bank account that corresponds to the customer deposits on a monthly basis.

Customer deposit details will be reconciled upon the new software implementation compiled monthly.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003
(Continued)

2003-B5: Control Over Traffic/Misdemeanor Tickets

The Town has recently implemented new procedures in regards to traffic/misdemeanor tickets, but, during our audit we noted that the Assistant Town Clerk was performing almost all of the procedures without much if any approval or review by the Town Clerk.

Recommendation: We recommend the Town Clerk review and approve on a routine basis the activity of traffic tickets to allow for proper segregation of duties and to strengthen controls, including the Town Clerk reconciling the receipt book for cash payments to the deposits made.

Response: Starting in 2004, the Town Clerk will review the activity of traffic tickets and reconcile the receipt book for cash payments made in deposits.

2003-B6: Late Submission of Audit Report

The Town's audit report was not submitted timely in accordance with state audit law.

Recommendation: We recommend the Town implement procedures to ensure the timely submission of its audit report in the future.

Response: The Town plans are to start the 2004 audit in a manner timely enough to submit the 2004 audit report in accordance with state law.

2003-B7: Loans to Town Employees

During the audit we noted that loans were made out of the Town's general fund to certain Town employees. The amount loaned was approximately \$2,322. This violates Article 7, Section 14 of the Louisiana Constitution and the Code of Ethics Law for Public Officials and Public Employees which prohibits employees or officials accepting/receiving loans from the Town.

Recommendation: We recommend the Town obtain repayment of the loans and discontinue the practice of making loans to employees of the Town.

Response: This activity was discontinued and the Town will seek repayment on any loans.

(Continued)

Town of Cotton Valley
Cotton Valley, Louisiana
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2003
(Continued)

C. Findings and Questioned Costs – Major Federal Award Programs Audit:

Department of Agriculture – USDA Rural Development, CFDA #10.760

2003-C1: Funding Reserves Required by Rural Development Debt Agreements

During our audit, we noted that the Town did not fund the required reserves for the Rural Development debt.

Recommendation: We recommend that the Town contact Rural Development and obtain a waiver to not fund the required reserves or develop a plan to begin funding the reserves.

Response: The Town will try to start making reserve payments to these funds.

Town of Cotton Valley
Cotton Valley, Louisiana
Summary Schedule of Audit Findings for the Louisiana Legislative Auditor
December 31, 2003

Summary Schedule of Prior Audit Findings

Prior year findings are detailed in the attached Summary Schedule of Prior Audit Findings as items 2002-B1, 2002-B2, 2002-B3, 2002-B4, 2002-B5, 2002-B6, 2002-B7, 2002-B8 and 2002-C1

There were no management letter comments for the audit for year ended December 31, 2002.

Corrective Action Plan for the Current Year Audit Findings

Current year findings are detailed in the attached schedule of findings and questioned costs as items 2003-B1, 2003-B2, 2003-B3, 2003-B4, 2003-B5, 2003-B6, 2003-B7, and 2003-C1.

There were no management letter comments for the audit for the year ended December 31, 2003.